

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6308**

**BILL NUMBER:** SB 52

**NOTE PREPARED:** Nov 22, 2004

**BILL AMENDED:**

**SUBJECT:** Property Tax Assessment of Computer Software.

**FIRST AUTHOR:** Sen. Ford

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:**     **GENERAL**  
                          **X DEDICATED**  
                          **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that the fair market value of computer software is the true tax value of the software.

**Effective Date:** January 1, 2006.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base caused by the treatment of software assets in this bill will reduce the property tax revenue for these two funds.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current Department of Local Government Finance (DLGF) assessment rules, computer software is to be reported at cost on the depreciation schedule for depreciable assets. Software is treated just as any other depreciable asset. Most software is reported in asset pool #1, which values property at 65% of cost in year one, 50% in year two, 35% in year three, and 20% in the fourth and later years. The true tax value (TTV) of all of a taxpayer's depreciable property located in the same taxing district must be at least 30% of the total cost of the property.

Under this bill, computer software would be assessed at its fair market value instead of using the cost less depreciation method. It is assumed that the 30% floor would no longer apply to software under the bill. This

treatment of computer software assets would most likely result in a reduction of assessed value.

According to the DLGF, evidence gathered from field reviews and audits suggests that many taxpayers are not properly reporting software even under current law and many counties have not pursued these taxpayers. Because of the low compliance rate, this bill would result in only a minimal reduction in actual assessed value, statewide. However, there could certainly be an impact in specific local areas in cases where compliant taxpayers have large amounts of software assets.

The reduced software valuations would shift part of the property tax burden from the taxpayers who own software to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund. The amount of the tax shift cannot be estimated.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** Township and county assessors.

**Information Sources:** Kurt Barrow, Assessment Director, Department of Local Government Finance (232-3777).

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